

Message Text

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C O N F I D E N T I A L PEKING 0742

E.O. 11652: GDS
TAGS: ETRD EAGR CH US
SUBJECT: TCK WHEAT SMUT PROBLEM

REF: A) STATE 092368 B) STATE 082949

SUMMARY: THE CHINESE DESIRE TO AVOID ANY POSSIBILITY OF CONTAMINATION FROM TCK IN IMPORTED US WHEAT IS UNDERSTANDABLE. THE PROBLEM IS COMPOUNDED BY THE CURRENT DOMESTIC POLITICAL CAMPAIGN IN CHINA, ONE THEM OF WHICH IS TO CRITICIZE THOSE WHO RELY TOO HEAVILY ON IMPORTS OR WHO IMPORT DEFECTIVE GOODS. WHILE CEROILFOOD'S MARGIN FOR MANEUVER IS LIMITED, THEY HAVE NOT CLOSED THE DOOR ON THE US AS A SOURCE OF WHEAT SUPPLY. THE FORTHCOMING CARGILL/DREYFUS/USDA MISSION TO PEKING MUST DEAL FRANKLY AND FULLY WITH ALL ASPECTS OF THE TCK PROBLEM IF IT IS TO CLEAR UP MISUNDERSTANDINGS WHICH HAVE ARISEN, AND IF A WAY IS TO BE FOUND TO CONVINCE THE CHINESE THAT THE PROBLEM IS A MANAGEABLE ONE. END SUMMARY.

1. IN CONNECTION WITH THEIR BRIEFING OF USG MEMBERS OF DREYFUS/CARGILL/USDA TEAM (REF A), DEPARTMENT AND USDA MAY WISH TO DRAW ON FOLLOWING THOUGHTS CONCERNING TCK WHEAT SMUT PROBLEM.

2. QUOTE APART FROM ANY EFFECT OF THE CURRENT POLITICAL CAMPAIGN ON CHINESE ATTITUDES, THEIR CONCERN ABOUT TCK,
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WHICH CHINA DOES NOT HAVE AND WHICH THEY BELIEVE MIGHT

CONCEIVABLY AFFECT CROP YIELDS, IS ENTIRELY UNDERSTANDABLE. AS A PREDOMINATELY AGRICULTURAL COUNTRY WHICH HAS GIVEN HIGHEST PRIORITY TO INCREASING GRAIN OUTPUT, AND WHICH HAS HAD TO SPEND A LARGE PORTION OF ITS FOREIGN EXCHANGE EARNINGS FOR SUPPLEMENTARY GRAIN IMPORTS, ANY POTENTIAL THREAT TO AN IMPORTANT CROP IS A VERY SERIOUS MATTER.

3. THE MATTER IS COMPLICATED BY THE CURRENT ANTI-LIN PIAO ANTI-CONFUCIUS CAMPAIGN, ONE THEME OF WHICH HAS BEEN CRITICISM OF EXCESSIVE RELIANCE ON IMPORTS AND CRITICISM OF THOSE RESPONSIBLE FOR IMPORTS OF DEFECTIVE OR SHODDY GOODS. WE ARE IMPRESSED BY COMMENTS MADE TO US LAST WEEK BY REPRESENTATIVES OF COOK AND BUNGE THAT CEROILFOOD'S PRINCIPAL GRAIN NEGOTIATOR IS UNDER HEAVY PRESSURE BECAUSE OF THE PRESENCE OF TCK IN US WHEAT AND THAT HE HAS LITTLE MARGIN FOR MANEUVER. IN PRIVATE CONVERSATIONS WITH THESE GRAIN COMPANY REPRESENTATIVES HE INDICATED THAT HE UNDERSTANDS WHY THERE FIRMS ARE RELUCTANT TO SHIP IN THE FACE OF THE RIGID CHINESE REJECTION STANDARD FOR TCK, BUT HE STRESSED THAT HIS HANDS ARE TIED. CEROILFOOD, NEVERTHELESS, CONTINUES TO KEEP THE US OPTION OPEN, REFUSING TO NEGOTIATE TERMINATION OF OUTSTANDING CONTRACTS AND ALSO REFUSING OFFERS BY GRAIN COMPANIES TO SHIFT TO NON-US SOURCES OF SUPPLY. HIGHER PRICE MAY NOT BE THE ONLY REASON FOR THE LATTER; WE HEARD THAT CEROILFOOD HAS MADE INQUIRIES FOR SPOT PURCHASES OF FRENCH WHEAT FOR JUNE-JULY DELIVERIES.

4. WHETHER THE CHINESE CAN BE MOVED FROM THEIR PRESENT RIGID STANCE MAY DEPEND NOT ONLY ON WHETHER THEY ARE CONVINCED THAT THE TCK PROBLEM IS MANAGEABLE, BUT ALSO ON HOW BADLY THEY MAY NEED THE WHEAT WHICH THEY ORDERED FROM THE US. IF THEIR NEED IS GREAT, AND IF THEY CANNOT FIND SUBSTITUTE SOURCES OF SUPPLY OVER THE SHORT TERM (SOME GRAIN FIRM REPRESENTATIVES TELL US ALTERNATIVE SUPPLIES ARE AVAILABLE, SOME SAY THEY ARE NOT), THE CHINESE MAY BE MORE AMENABLE TO A REVIEW OF TESTING PROCEDURES AND STANDARDS AND OF METHODS OF STERILIZATION. IN THIS REGARD, CEROILFOOD MUST BE CONVINCED, AFTER THEIR DISCUSSIONS

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LAST WEEK WITH COOK AND BUNGE AND THEIR TALKS IN MARCH WITH CARGILL AND DREYFUS, THAT THE GRAIN FIRMS CANNOT CONTINUE TO MAKE SHIPMENTS IN THE FACE OF THE FINANCIAL RISK OF CARGO REJECTION.

5. AN IMPORTANT FUNCTION OF THE USG MEMBERS OF THE MISSION WILL BE TO LAY OUT TO THE CHINESE AS FRANKLY AND OPENLY AS POSSIBLE ALL THE KNOWN FACTS ABOUT TCK WHEAT SMUT

(INCLUDING ANY AREAS THAT RESEARCH MAY NOT YET HAVE CLEARED UP); ITS OCCURENCE IN THE US, METHODS OF INFECTION, CONDITIONS FOR GERMINATION, POSSIBILITY OF EFFECT ON YIELDS, ETC. WE SUSPECT THERE ARE SOME ASPECTS OF THE WHEAT SMUT PROBLEM ON WHICH THE CHINESE ARE NOT CLEAR, AND SO LONG AS THEY ARE NOT CLEAR THEY ARE BOUND TO ERR ON THE SIDE OF CAUTION. (WE HEARD THAT THE CHINESE RECENTLY QUERIED SOME MEXICAN VISITORS FOR ANY AVAILABLE INFORMATION ON TCK.) WE WOULD HOPE, MOREOVER, THAT A FRANK EXCHANGE ON ALL ASPECTS OF TCK WILL SERVE TO COUNTERACT ANY CHINESE THINKING THAT THE US MALICIOUSLY, CARELESSLY, OR INDIFFERENTLY SHIPPED SMUT INFECTED WHEAT TO CHINA.

6. REPRESENTATIVES OF COOK AND BUNGE ALSO INDICATED TO US THAT CEROILFOOD OFFICIALS HAVE A LOW REGARD FOR USDA TESTING PROCEDURES AND CERTIFICATIONS, AND IT IS IMPORTANT THAT THE PRESENTATION BY USG MEMBERS OF THE TEAM RECTIFY THIS IMPRESSION. WE HOPE, TOO, THAT FOR THE PURPOSE OF IMPROVING CHINESE UNDERSTANDING OF THE PROBLEM, THE GRAIN COMPANIES CONCERNED WILL REPEAT THEIR OFFER TO HOST A FACT-FINDING CHINESE DELEGATION TO THE US.

7. AN OPEN AND FULL EXPOSITION OF THE TCK SITUATION AS INDICATED ABOVE IS ESSENTIAL IF THE MISSION IS TO HAVE ANY HOPE OF CONVINCING THE CHINESE THAT TCK IS A MANAGEABLE PROBLEM, AND THAT IT IS IN THE CHINESE INTEREST TO PERMIT A CERTAIN TOLERANCE LEVEL INSTEAD OF THEIR PRESENT POLICY OF REJECTION EVEN IF ONE SPORE IS FOUND. ANY INFORMATION THE TEAM MAY BE ABLE TO PROVIDE AS TO WHY WHEAT SMUT APPEARED IN SOME OF THE SHIPMENTS FROM THE GULF COAST AND WHAT, IF ANYTHING, THE USDA AND GRAIN SHIPPERS CAN DO TO MINIMIZE SUCH CONTAMINATION WILL BE HELPFUL. THE USG MEMBERS OF THE TEAM SHOULD ALSO BE PREPARED WITH INFORMATION

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ON THE ORIGIN (WEST COAST, GULF, GREAT LAKES) OF WHEAT SHIPMENTS TO CHINA AND THE EXTENT TO WHICH TCK WAS FOUND. REPRESENTATIVES OF COOK AND BUNGE ARE CONVINCED THAT THE RECORD OF TCK FREE SHIPMENTS FROM THE US GULF COAST IS EXCELLENT, AND BELIEVE THAT CARGILL AND DREYFUS PERCIPITATED THE CURRENT CRISIS BY CONTINUING TO MAKE SHIPMENTS FROM THE WEST COAST (BECAUSE OF THE LOWER SHIPPING COSTS) EVEN AFTER THE VISIT OF DR. HOFFMAN LAST OCTOBER. WE DO NOT KNOW IF THIS ALLEGATION IS TRUE, BUT IT MAY BE HELPFUL IN TALKS WITH THE CHINESE TO HAVE SUCH INFORMATION ON THE ORIGIN OF US SHIPMENTS AVAILABLE.

8. IN REGARD TO THE OBJECTIVE OF SEEKING AN AGREED PROCEDURE FOR HANDLING OF SHIPMENTS THAT DO NOT MEET TCK TOLERANCE LEVELS, THE TEAM SHOULD BE PREPARED TO REVIEW

FULLY THE METHODS AND LIKELY EFFECTIVENESS OF STERILIZATION.
WE UNDERSTAND THAT THE CHINESE ARE NOT CONVINCED THAT
STERILIZATION IS 100 PERCENT EFFECTIVE, AND THAT IT IS
SIMPLY UNECONOMIC TO HOLD STERILIZED SHIPMENTS FOR
THE 30 TO 60 DAYS THAT IT WOULD TAKE FOR SPORES TO
GERMINATE.

9. MR. BRUCE IS PERSONALLY VERY CONCERNED ABOUT THE
TCK PROBLEM AND HE HOPES TO MEET THE TEAM, PARTICULARLY
THE USG MEMBERS, SOON AFTER THEY ARRIVE. IN VIEW OF THE
CHINESE STRESS THAT THIS IS A COMMERCIAL AND NOT A
GOVERNMENTAL MISSION, USLO DOES NOT PLAN TO MEET THE GROUP
AT THE AIRPORT. WE ARE PREPARED, HOWEVER, TO BE OF ANY
APPROPRIATE ASSISTANCE DURING THEIR STAY HERE.
BRUCE

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